

# FDIC State Profile

Winter 2004

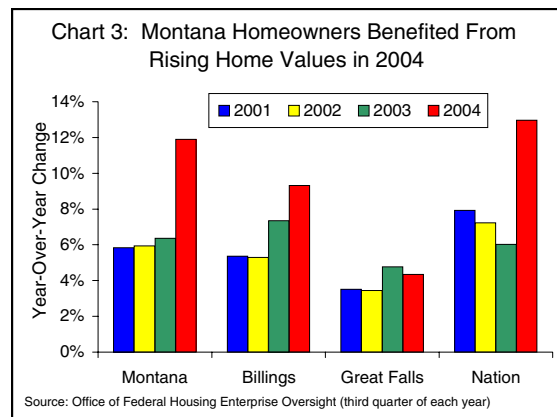
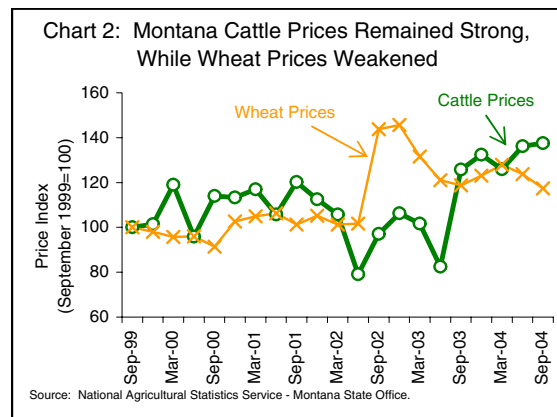
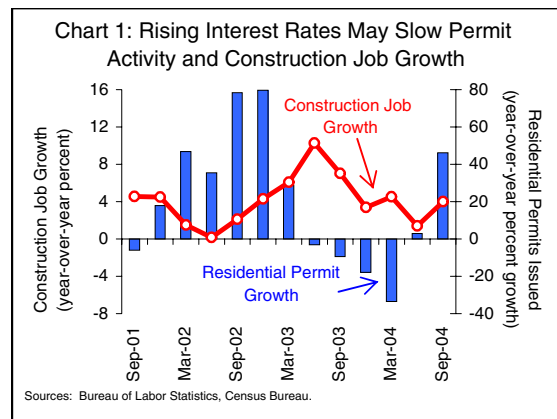
## Montana

Montana continued to report solid job growth.

- The construction sector reported 4 percent year-over-year growth during the quarter, adding about 1,000 jobs. Residential construction activity was strong especially in the multi-family area, but job growth in this rate sensitive sector could decelerate in 2005 if interest rates rise rapidly (See Chart 1). Increased building activity pushed the median construction and development (C&D) loan growth among established institutions to 34 percent.<sup>1</sup>
- The business services sector reported a 3 percent job growth rate. At the same time, the state's mining sector added jobs in response to higher oil prices.
- The government sector, which accounts for 20 percent of the state's labor force, was the only sector to report year-over-year job losses.

Higher cattle prices buoyed the farm sector.

- Prices for cattle and calves, which represent nearly half of the state's farm receipts, rose through third quarter 2004 (See Chart 2). U.S. ranchers faced smaller cattle inventories in 2004, following the discovery of mad cow disease and the subsequent ban on Canadian cattle in 2003. The United States Department of Agriculture (USDA) forecast cattle prices to remain strong through 2005. In contrast, increased global production depressed prices for wheat, which generates about one-quarter of Montana's farm receipts.
- Crop conditions and farm incomes remained vulnerable to persistent drought conditions and potential long-term cuts in farm subsidies resulting from World Trade Organization (WTO) rulings.
- Farm credit quality remained important to the 39 insured institutions with agricultural loan-to-Tier 1 capital ratios of at least 100 percent. These lenders reported strong earnings but continuing asset quality challenges. The median year-to-date pre-tax return on assets (ROA) for the group increased to 1.83 percent year-over-year, beating



<sup>1</sup>Established institutions include insured institutions open at least three years.

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a nationwide median of 1.50 percent. Although improving, the group's median past-due loan ratio of 2.26 percent reflected lingering weakness in commercial and industrial (C&I) loan portfolios and remained above national levels.

### Strong job and house price growth benefited consumers.

- Montana's per capita personal bankruptcy filing rate increased in the year ending second quarter 2004 but remained below the national rate.
- As of third quarter 2004, the state's house price index<sup>2</sup> increased 11.9 percent over year-ago levels, nearly double the year-ago growth rate (See Chart 3).
- Rising home values boosted the median 1-4 family mortgage growth rate among established institutions to 8.3 percent year-over-year in third quarter 2004. Homeowners also extracted some of this increased value in the form of home equity lines of credit which grew 32 percent, albeit from a very small base.
- Among Montana-based established institutions, the third quarter median ratio of past-due 1-4 family loans declined from 1.80 percent in 2003 to 1.33 percent in 2004, besting a nationwide median of 1.40 percent. During the same period, the median past-due consumer loan ratio improved from 2.23 percent to 2.05 percent, but remained above a national median of 1.92 percent.

### Population growth spurred bank branching activity.

- Annual growth in the number of banking offices continued, but slowed from a 1998 peak that occurred after the state's adoption of the Riegle-Neal Act.
- During the past ten-years, office and deposit volumes increased across several of the state's metropolitan and micropolitan areas (See Chart 4).<sup>3</sup> Of the 108 offices opened in the past decade, 38 were within the micropolitan areas of **Bozeman**, **Kalispell**, and **Helena**. These areas will likely see continued in-migration because of their lower cost of living and attractive quality of life benefits.

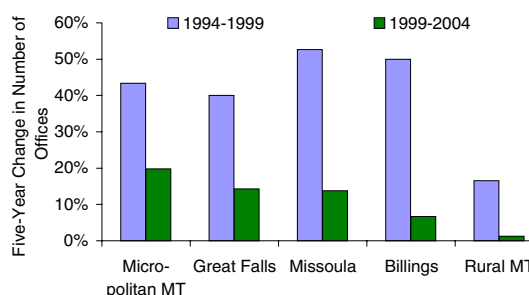
### Insured institution earnings and asset quality improved.

- Montana's established institutions reported a year-over-year improvement in median pre-tax ROA, which increased from 1.72 percent to 1.84 percent and outperformed a national median of 1.44 percent.<sup>4</sup>

Expanded net interest margins and lower overhead and provision expense-to-average asset ratios contributed to the trend.

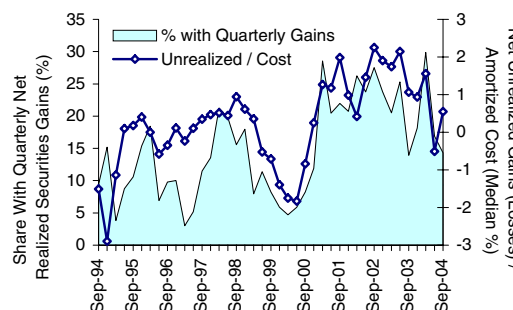
- Year-to-date, gains on the sale of securities boosted earnings among one-third of commercial banks, although most investment sales occurred during the first quarter of the year. A third quarter decline in long-term interest rates assisted unrealized gains in bond portfolios; however, future gains-taking opportunities may be limited if interest rates rise, as was the case during 1994 and 1999 (See Chart 5). Interest rate trends bear watching as securities represented 19 percent of total assets among Montana-based institutions on a median basis.
- Mild improvements in asset quality enabled some established institutions to increase earnings through lower loan loss provisions. The third quarter 2004 median past-due loan-to-total loan ratio declined but remained substantially above the ratio reported by established institutions nationwide. High, albeit declining, past-due C&I and consumer loan ratios contributed materially to overall delinquencies.

Chart 4: Office Growth Decelerated in Montana but Remained Strong in Micropolitan Areas



Source: FDIC/OTS Summary of Deposits (June of each year)

Chart 5: The Recent Drop in Long-Term Rates Boosted Securities Values at Montana Banks



Source: FDIC (Call Report filers only).

<sup>2</sup>Data from the Office of Federal Housing Enterprise Oversight

<sup>3</sup>For purposes of this section, a metropolitan area includes one or more urbanized areas with at least 50,000 residents, while a micropolitan area contains one or more urban clusters of between 10,000 and 50,000 inhabitants.

<sup>4</sup>Pretax ROA is used to allow better comparability between regular banking corporations and institutions electing Subchapter S Corporation status. Twenty-four of Montana's 80 insured

institutions elected Subchapter S status as of September 30, 2004, which eliminates income tax expense at the bank level.

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### Montana at a Glance

General Information	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Institutions (#)	80	82	84	86	90
Total Assets (in thousands)	14,373,785	14,900,878	13,936,226	12,952,355	12,108,373
New Institutions (# < 3 years)	2	4	2	2	1
New Institutions (# < 9 years)	5	7	5	5	3
Capital	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Tier 1 Leverage (median)	9.47	9.59	9.38	9.49	9.51
Asset Quality	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Past-Due and Nonaccrual (median %)	2.18%	2.20%	2.29%	2.50%	2.05%
Past-Due and Nonaccrual >= 5%	11	10	11	19	9
ALLL/Total Loans (median %)	1.45%	1.41%	1.43%	1.45%	1.37%
ALLL/Noncurrent Loans (median multiple)	1.48	1.23	1.22	1.36	1.73
Net Loan Losses/Loans (aggregate)	0.15%	0.16%	0.24%	0.17%	0.21%
Earnings (Year-to-Date Annualized)	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Unprofitable Institutions (#)	1	3	1	1	1
Percent Unprofitable	1.25%	3.66%	1.19%	1.16%	1.11%
Return on Assets (median %)	1.32	1.29	1.22	1.26	1.41
25th Percentile	1.02	0.96	0.97	0.99	1.08
Net Interest Margin (median %)	4.65%	4.59%	4.68%	4.77%	5.08%
Yield on Earning Assets (median)	6.03%	6.25%	7.06%	8.40%	8.82%
Cost of Funding Earning Assets (median)	1.26%	1.60%	2.29%	3.63%	3.69%
Provisions to Avg. Assets (median)	0.13%	0.15%	0.14%	0.09%	0.10%
Noninterest Income to Avg. Assets (median)	0.71%	0.75%	0.71%	0.76%	0.74%
Overhead to Avg. Assets (median)	2.87%	2.98%	2.99%	3.10%	3.10%
Liquidity/Sensitivity	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Loans to Deposits (median %)	82.49%	78.49%	77.48%	76.70%	77.46%
Loans to Assets (median %)	68.28%	63.38%	65.01%	64.76%	66.22%
Brokered Deposits (# of Institutions)	15	9	8	8	12
Bro. Deps./Assets (median for above inst.)	6.55%	5.49%	4.75%	1.25%	1.42%
Noncore Funding to Assets (median)	15.78%	14.29%	14.85%	15.43%	15.61%
Core Funding to Assets (median)	72.45%	74.15%	73.15%	72.12%	73.93%
Bank Class	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
State Nonmember	30	31	31	32	34
National	14	15	16	17	18
State Member	33	33	33	33	33
S&L	2	2	2	2	2
Savings Bank	1	1	2	2	3
Stock and Mutual SB	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	66	7,709,008	82.50%	53.63%	
Great Falls MT	5	441,663	6.25%	3.07%	
Billings MT	5	5,350,796	6.25%	37.23%	
Missoula MT	4	872,318	5.00%	6.07%	